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TAGS: [ECON](#) [ETRD](#) [EINV](#) [PREL](#) [PGOV](#) [TW](#) [CH](#)
SUBJECT: TAIWAN ANTICIPATES CONTINUED GROWTH OF
CROSS-STRAIT TRANSPORTATION AND TOURISM

REF: A. 08 TAIPEI 1564
[1](#)B. TAIPEI 1523

Classified By: AIT Director Bill Stanton for reasons 1.4 (b) and (d).

[1](#)1. (SBU) Summary: While direct maritime and aviation transportation links with China have expanded significantly over the past two years, several issues remain unresolved, including onward-bound passenger flights from PRC destinations (Fifth Freedom rights) and an increase in weekly cross-strait flights, Minister of Transportation and Communications (MOTC) Mao Chi-kuo told the Director during a February 3 introductory meeting. The growth in cross-strait tourism had benefited Taiwan's economy, the Minister affirmed, but the number of tourists traveling from the island to the mainland still far exceeds the number going the other way. Minister Mao was confident that Taiwan's High Speed Rail Corporation (THSRC) would be able to take advantage of a recently-approved loan package to stem its financial losses, and predicted THSRC would eventually go public. Asked about Taiwan's transition to EU vehicle safety standards that would deny market access to certain U.S.-made vehicles, Mao explained that current regulations still allowed for limited exceptions on a case-by-case basis. Mao said his ministry would continue its efforts to support the Ministry of Foreign Affairs' push to achieve greater participation in the International Civil Aviation Organization (ICAO) for Taiwan. End Summary

Significant Expansion of Cross-Strait Transportation

[1](#)2. (C) Asked to assess the impact of direct cross-strait shipping and aviation links on Taiwan's economy, Minister Mao did not directly address the question, but said there had been significant growth since 2008, when Taiwan and the PRC signed initial agreements allowing direct shipping and passenger and cargo flights (ref. A). Aviation and Navigation Department head Yin Chen-pong cited data showing a 10 percent annual increase in the volume of container shipping between Taiwan and China in the last two years.

13. (C) Mao said acquiring Fifth Freedom rights for passenger flights remained important to Taiwan in its transportation talks with the PRC, but Beijing refused to discuss the issue for now. He further explained that air cargo from the PRC enjoyed such rights, and could directly transit Taiwan's Taoyuan International Airport, although passengers from the PRC still could not. (Note: A CAA official separately confirmed that Chinese tourists enter Taiwan on entry permits issued by the island's National Immigration Agency. PRC regulations do not allow Chinese tourists to travel to other destinations from Taiwan, according to CAA. End Note.) Noting there were numerous technical issues that also remain unresolved, Mao said Taiwan would seek to raise many of them at the next round of transportation talks with the PRC, which could take place in March or April this year.

14. (C) In response to the Director's query about why Taiwan and the PRC were not able to agree on expanding the number of passenger and cargo flights during the most recent round of cross-Straits talks in December (ref. B), Mao said the reasons were commercial rather than political. According to Mao, Beijing wanted to protect the interests of the PRC airlines. At the same time, Mao added, China's subsequent request for additional charter flights during the Lunar New Year was nearly three times larger than the number sought by Taiwan. (Note: For this year's Lunar New Year season from January 31 to February 28, Taiwan airlines will operate 98 extra flights and PRC carriers will operate 287 added flights. End Note.) Observing that military control of much of China's airspace also limited the scope of any increase of commercial flights into mainland airports, Mao said Taiwan would continue, nonetheless, to seek additional cross-Straits flights on commercial grounds.

Tourism a Growth Industry for Taiwan

15. (C) Mao confirmed that approximately 600,000 tourists came to Taiwan from the Mainland in 2009, out of a total of about 900,000 PRC travelers who visited the island. (Note: Under Taiwan immigration regulations, PRC tourists are categorized separately from Mainland travelers who come to the island to visit family. End Note.) Mao said PRC tourist spending generated last year about NTD 30 billion (USD 970 million) in revenue for Taiwan's businesses. While acknowledging the importance to Taiwan's economy of the growth in cross-Straits tourism, Mao pointed out that the number of tourists from Taiwan who visited the mainland last year, somewhere between four and five million, was significantly larger than the number of mainland Chinese going in the opposite direction. Separately, MOTC's Tourism Bureau told us the exact number of Taiwan tourists who went to the PRC in 2009 was 3,777,088.

16. (C) According to Mao, tourism accounts for roughly two percent of Taiwan's GDP, and last year's tourist inflows unexpectedly jumped 14.3 percent, the highest increase in Asia, in part due to increased numbers of mainland visitors. He told the Director that Taiwan's Tourism Bureau has been working hard to promote the island as a tourist destination, including in the United States. With U.S. tourists historically comprising the fifth or sixth largest block among foreign visitors to the island, the Tourism Bureau succeeded in getting the Discovery Channel and National Geographic to broadcast programs about Taiwan. Mao noted that, as the result of the Tourism Bureau placing advertisements with the New York Times, the newspaper had put the bureau's logo up on its Times Square marquee on New Year's day.

High Speed Rail May Recover

17. (C) The Director inquired about the status of the financially-troubled Taiwan High Speed Rail Corporation (THSRC). Mao said the corporation's basic problem was that

it had a high debt-to-equity ratio of three-to-one. Mao, who in the early 1990s directed MOTC's office which started the high speed rail project, noted that while the railway's operational efficiency and service were very good, there had been insufficient demand, particularly during its start-up in ¶2007. As a result, revenues had not been high enough to pay off outstanding debt and cover depreciation costs. He said MOTC had initially assisted THSRC to renegotiate the interest rates on many of the corporation's loans, but this had still been insufficient to stem the revenue losses. According to Mao, in order to get the support of banks and the Legislative Yuan for a new loan package for THSRC, the corporation's former chairman, Nita Ing, had to resign. With the new loan package, Mao was confident that THSRC would be able to resolve its financial problems and eventually stage an initial public offering. (Note: On January 8, Mao, along with THSRC Chairman Ou Chin-der and Bank of Taiwan Chairwoman Susan Chang signed a tri-party loan agreement which provided over USD 12 billion to THSRC. Most of the loan amount is guaranteed by the authorities. End Note.)

Vehicle Standards - Limited Exceptions until 2013

¶8. (SBU) The Director raised the issue of Taiwan's ongoing switch to new standards which will mean allowing market access only to vehicles meeting Taiwan's version of the United Nations Economic Commission for Europe (UNECE) safety and emissions standards. He asked Minister Mao if MOTC would consider more flexibility in accepting U.S.-spec vehicles. MOTC Director of Road Policy Chi Wen-Jong said the Ministry would allow exceptions for vehicle orders by individuals or international organizations like the Taipei American School, but did not indicate MOTC would consider any further alteration or delay in implementing the move to no longer accept vehicles that only adhere to U.S. standards. (Note: Until 2004, the Taiwan market was open to vehicles built to either the U.S. Federal Motor Vehicle Safety Standards (FMVSS) or UNECE standards. In 2004, however, Taiwan decided to shift to accepting only vehicles meeting the Taiwan version of the UNECE requirements. MOTC has previously phased in the change for different vehicle classes: buses and trucks must already be UNECE compliant to be sold in the Taiwan market, and all vehicles, including passenger vehicles, must meet the full range of Taiwan's UNECE standards by the end of ¶2012. End note.)

Taiwan and ICAO - MOTC in Supporting Role

¶9. (C) Noting the large volume of civil aviation which regularly transited Taiwan's air space, the Director inquired about the status of Taiwan's efforts to gain greater participation in ICAO. Mao said MOTC had provided suggestions to the Ministry of Foreign Affairs (MOFA), which is spearheading efforts to win observer status for Taiwan at ICAO. Acknowledging that the PRC remained hostile to Taiwan's participation in ICAO, Mao emphasized that MOTC would continue to focus on the technical and safety aspects of ICAO in support of MOFA's campaign to overcome Beijing's opposition.

¶10. (C) Comment: With a Ph.D. in engineering from M.I.T., Mao comes across as an intelligent, congenial but cautious bureaucrat. During the meeting, Mao generally confined his remarks about evolving cross-Strait transportation links to objective statements of fact. That he had few details to offer about the economic ramifications of the direct transportation links and increased tourism, arguably the most visible economic achievement of the Ma administration's cross-Strait policy so far, suggests that Taiwan has not yet seen the significant boost it had expected. End Comment.